

# County of Orange Internal Audit Department

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

## 2007 Business Plan



March 20, 2007

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Proud Recipient of the  
2005 Institute of Internal Auditors' Award for  
Professional Excellence, Quality, and Outreach

INTERNAL AUDIT DEPARTMENT  
2007 BUSINESS PLAN

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COUNTY OF ORANGE  
**INTERNAL AUDIT DEPARTMENT**

**2005 Recipient of the Institute of Internal Auditors'  
Award for Recognition of Commitment to  
Professional Excellence, Quality and Outreach**

*Integrity ♦ Objectivity ♦ Independence*

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*Letter from the Director*

Dear Readers,

It is my pleasure to provide the 2007 Business Plan for the Internal Audit Department (IAD).

This Business Plan provides summary information about the Internal Audit Department and how it operates, and hopefully provides insights into our department.

The IAD produces a wealth of audit reports that become part of the public record and are available on the Internet. We produce a monthly summary of audit reports issued that is included in the Board of Supervisor's agenda. In addition, we facilitate the Audit Oversight Committee meetings on a quarterly schedule and have them approve our annual Audit Plan and review our quarterly progress in completing the annual Audit Plan.

The IAD is a dynamic department and a valuable resource to the Board, the County departments and agencies, and the public.

I encourage you to explore our Business Plan. If you have questions or comments, please feel free to contact us.

Sincerely,

Dr. Peter Hughes, CPA  
Director

## EXECUTIVE SUMMARY

The Internal Audit Department (IAD) provides a variety of audit services to its primary client, the Board of Supervisors. The Board members share the elected responsibility and accountability for the financial stewardship of the County. Another important recipient of our audit services is County executive management, which includes both elected and appointed department heads. The department heads working together with the CEO have the responsibility for the day-to-day fiscal and programmatic operation of the County departments and agencies. In addition, our published audit reports are public information and are available on the Internet. Our audit reports are being read by various Federal and State regulatory agencies, the Orange County Grand Jury, the media, the investment community, and the public at large.

Mission Statement: The mission of the Internal Audit Department is to provide reliable, independent, objective evaluations, and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as, to contribute to protecting and safeguarding the County's resources and assets.

### Goals:

Internal Audit continues to have the same two fundamental strategic goals. The two strategic goals are as follows:

1. We assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded, the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely and complete information and relevant analysis for its business, and financial decisions.
2. We maintain integrity, objectivity, and independence and provide professional internal audits, assurance and attestation services, and suggested corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and core financial and business operations through our public audit reports and reviews.

We incorporate these Business Plan goals into our annual Audit Plan as well. Our Audit Plan is submitted, discussed, and approved each fiscal year by the Audit Oversight Committee (AOC). At the same time, we plan enough flexibility into the Audit Plan to respond to the Board of Supervisors' requests for audit services.

We support and assist the Board of Supervisors and County executive management in the accomplishment of their business goals and objectives. Our contribution to this effort is testing and reporting on their internal control systems and processes.



#### Responsibility for Controls:

County executive management is responsible for establishing and maintaining these control processes because they must rely on these systems and processes in managing their complex organizations. These systems and processes are used for safeguarding the County's assets and resources; for reasonable, prudent, and effective financial stewardship, and for accurate recording and reporting.

The IAD is recognized for our internal controls expertise. We apply this expertise in assisting County executive management in enhancing its business processes and constantly improving and strengthening the internal control environment the public expects, relies upon, and demands of its government.

#### Continuous Learning and Improvement:

We are committed to a process of continuous learning and improvements within our department. We keep ourselves updated on relevant issues in business and industry with regard to accounting trends and developing financial best practices. Such constant renewal keeps the IAD and its staff professionally current, refreshed, invigorated, and responsive to the County's needs for attestation, compliance assurance, accountability testing, and business improvement. We assist management in helping to implement best business practices with regard to internal controls, accounting systems, and business processes. As part of our improvement process, we distribute a customer survey with each of our audit reports to allow customer evaluation and feedback.

#### Adherence to Professional Standards:

To meet our clients' expectations for integrity, objectivity, and independence and for us to function effectively with consistent reliability and credibility, the IAD applies professional auditing standards to all audit engagements. This allows us to ensure reviews and assessments of County operations are always informative, balanced, accurate, and objective. Where required, the IAD follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Government Accountability Office (GAO).

#### Validation of IAD's Work Quality:

The quality of IAD operations is regularly and independently assured by rigorous peer reviews conducted by outside CPA firms. We passed three such quality reviews to date; the last in 2004 being the most extensive quality review conducted outside the jurisdiction of the GAO. The next quality review is now being planned for 2007. As further validation of our department's commitment to quality, we received the IIA's "Award for Excellence" in 2005.

Our Business Plan goals are consistent with our annual Audit Plan because our role within Orange County is limited and well-defined. Our annual Business Plan is reviewed by the CEO's Office and our Audit Plan is submitted, discussed and approved each fiscal year by the Audit Oversight Committee (AOC). Our annual Audit Plan is challenging to complete, but it does include some flexibility to be responsive to the Board of Supervisors.



At times they request, by majority vote, audit services and we have hours reserved for this purpose.

Traditional “Hard Control” Audits:

Our Audit Plan has as its core the traditional internal audits of “hard-control areas” such as segregation of duties, limiting access to cash, and accurate originating accounting entries and transactions. Examples of such traditional audits in our Audit Plan include those audit categories identified as Financial Audits and Mandates (FAM), Internal Control Reviews (ICR), and Information Technology Audits (IT).

These reports contain opinions regarding the status of internal controls or the County’s compliance with grant or other governing provisions. Our reports often include recommendations to management regarding improvements to specific accounting processes and internal controls, in order to enhance or strengthen them.

Departmental Performance Measures:

We are now also including steps in our audits for testing the economy and efficiency of financial operations as regards their internal controls. Our reports now, where applicable, contain recommendations related to economy and efficiency enhancements.

In addition, we conduct Performance Measure Validation reviews as part of the Audit Plan. These reviews validate the performance measures included in the annual Business Plans produced by the County departments.

Audit Follow-Up Process:

The audit recommendation follow-up process was recently enhanced and is now a robust and fully successful process. Based on our Follow-Up Audits, we can state that County management substantially implements our recommendations on a timely basis. We attribute this level of management cooperation to the supportive partnership we have created with County management.

Key Outcome Measures:

For the fiscal year 05-06, we successfully met our two key outcome measures. Our audit efforts and the diligence and responsiveness of County management contributed to the achievement of these measures. Our two key outcome measures were successful last year because:

1. The County did not have any large and material cash losses of \$50,000 or more.
2. Overall, IAD received an average rating of 3.0 or more by the customer in our customer satisfaction surveys.



## **VISION, MISSION AND GOALS**

### **Vision**

Our vision is to maintain integrity, objectivity, and independence in all our audits and audit reports; as well as, in other services provided to the Board of Supervisors and County management.

### **Mission**

The mission of the Internal Audit Department is to provide reliable, independent, objective evaluations and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as, to contribute to protecting and safeguarding the County's resources and assets.

We support and assist the Board of Supervisors and County executive management in the realization of their specific business goals and objectives. Our contribution to this effort is testing and reporting on the effectiveness of their internal control systems and processes. County executive management relies on these systems and processes for:

- safeguarding the County's assets and resources
- reasonable, prudent, and effective financial stewardship,
- accurate recording and reporting, and
- achieving the County's stated goals and objectives.

### **Goals**

Internal Audit continues with its two fundamental strategic goals. The two strategic goals are as follows:

1. We assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded, the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely information and relevant analysis and information for its business and financial decisions.
2. We maintain integrity, objectivity, and independence and provide professional internal audits, assurance and attestation services, and suggested corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and financial and business operations through our public audit reports and reviews.

We incorporate these Business Plan goals into our annual Audit Plan as well. Our Audit Plan is submitted, discussed, and approved each fiscal year by the Audit Oversight Committee (AOC). At the same time, we plan enough flexibility into the Audit Plan to respond to the Board of Supervisors' requests for audit services.



## I. OUTCOME INDICATORS AND REPORTING

Outcome Indicator	FY 05-06 Results	FY 06-07 Plan	FY 06-07 Anticipated Results	FY 07-08 Plan	How are we doing?
<b>1. Cash Loss Activity</b>  <b>What:</b> The County Accounting Manual requires all cash losses to be reported to and reviewed by the Internal Audit Department.  <b>Why:</b> Cash losses bring bad publicity and weaken public confidence in County operations.	The County did not have any large and material cash losses of \$50,000 or more.	The County should not have any large or material cash losses of \$50,000 or more.	The County should not have any large or material cash losses of \$50,000 or more.	The County should not have any large or material cash losses of \$50,000 or more.	We are on track to achieve our goal and we submit quarterly reports to the AOC reflecting cash losses.
<b>2. Usefulness of reports and client satisfaction.</b>  <b>What:</b> Customer satisfaction surveys measure the value of our audit services and report products.  <b>Why:</b> The customer satisfaction survey provides feedback regarding the auditors' professionalism, timely communications, partnering, technical knowledge, and whether the auditors' recommendations were practical and reasonable.	Overall, IAD received an average rating of 3.0 or more by the customer in our customer satisfaction surveys.	Achieve an average rating of 3.0 or more in our customer satisfaction surveys.	Overall, we anticipate achieving an average rating of 3.0 or more in our customer satisfaction surveys.	Achieve an average rating of 3.0 or more in our customer surveys.	We continue to receive positive customer feedback.





## **II. OPERATIONAL PLAN FOR EACH GOAL**

We made the following commitments to accomplish each of our Business Plan goals and our Audit Plan coverage for fiscal year 06-07:

- We will complete all audits mandated by State law, as well as any audits required by the provisions of contracts and grants.
- We will conduct a Countywide Risk Assessment annually to include periodic personalized contact with the executive management of selected county departments to identify high risk areas in their respective department or agency. We will determine part of our annual audit coverage based on the results of our risk assessment.
- We will provide assessments of critical business functions by conducting Internal Control Reviews and Information Technology Audits.
- We will follow-up on all audit recommendations until every recommendation is satisfactorily implemented, remediated, or no longer valid.
- We will contract for specialized audits, such as information technology audits. We expect such professional expertise to extend, complement and train our audit staff, or to provide a particular expertise we do not have internally. We currently have resources available to contract such services.
- We will conduct a customer satisfaction survey on each audit engagement.

## **III. CLIENTS**

The Internal Audit Department reports directly to the Board of Supervisors, our primary client. The Board of Supervisors share in the elected responsibility and accountability for financial stewardship of the County. As a direct report to the Board, the Director of Internal Audit submits to the Board (in public forum) a monthly summary of all audit reports issued for the prior month. This formal communication to the Board allows for more detailed discussions of audit reports and issues in the public setting. The heightened level of exposure requires oral and written presentations and supporting documents.

Another important recipient of our audit services is County executive management. County executive management has the sole obligation and responsibility for establishing and maintaining the County's systems of internal control. Our work provides County executive management with professional and independent validation and feedback on how well their internal controls are working, and we make suggested recommendations on how to improve their internal controls.



This support role played by internal auditing within any organization is expressed well by the following authoritative definition from the Institute of Internal Auditors:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The County governmental environment is different from that of a typical commercial organization in a number of ways. Although in size of operations, the County business environment is similar to large commercial firms, the business diversity of the County is however, much more complex given our mandated and directed responsibilities. County executive management also has a public stewardship responsibility where all activities and reports have a concerned public audience both as fund providers, recipients, and participants in this process.

An important factor as to why the IAD functions so well is our organizational independence from the business units we audit within the County. Functional independence allows us to be forthright and candid in reporting findings and suggested recommendations resulting from our audits. Our audit reports are filed with the Clerk of the Board and are thereby made part of the public record. Monthly Summary Reports submitted to the Board present and summarize the audit activity. Our audit reports are also available on the Internet in order to further promote the public expectation of transparency in government.

We follow rigid professional ethics and specific quality and performance standards in conducting our work. We benchmark with other California counties and the Sarbanes-Oxley Act to obtain best business practices information which may be applicable to the County. Consequently, any reader or user of our published reports is the recipient of a quality-assured product and is able to rely on our opinions and conclusions.

The readers or users of our reports include the Board of Supervisors, executive management, the general public, the media and news organizations, the investment community, third party grantors who use our audits for compliance assurance, and external auditors who use our reports in assessing internal controls and financial statement information. We have included in *Appendix F* to this document further history of the uniqueness of the Orange County Internal Audit Department and how it became an independent department; as well as, further detail on the importance of organizational internal controls and professional standards.

In addition we report to the Audit Oversight Committee (AOC), which is an advisory committee of the Board of Supervisors. The AOC provides executive oversight and guidance to the internal audit function. The membership of the committee includes the Chairman and Vice-Chairman of the Board of Supervisors, the Auditor-Controller, the County Executive Officer, a member from the private sector appointed by the Board, and the Treasurer Tax-Collector as an ex-officio



(non-voting) member. We meet, discuss, and report our progress on the Audit Plan to the AOC on a scheduled quarterly basis and more often if issues or events require it. In addition, we compile and report to the AOC quarterly regarding all the audits of the County's programs conducted by external or third party auditors (such as state, and federal auditors). We also review these external audits to ensure we do not duplicate them in our work.

#### **IV. RESOURCES**

No business environment is without challenges and the strength of any organization is its ability to meet challenges head on and develop appropriate strategies and solutions for dealing with the challenges. We have designed our annual Audit Plan to include variety and flexibility. We recognize that scheduling conflicts or higher priorities arise during the year and we respond to these factors by providing proposals to the Audit Oversight Committee (AOC) for alternative projects. Once reviewed by the AOC, these projects and revised audit budgets become our "new" priorities.

An interesting statistic first compiled last year is that for the past seven years, the IAD has identified, reported on, and secured recommended actual revenue recoveries or revenues recoverable that have exceeded our department's budget each and every year. We do not view revenue recovery as a strategic goal or as a measure for the department because revenue recovery is not our sole purpose. However, we are proud of the job we have done in this area and the revenue recoveries bear witness to our success in directly contributing to the County's "bottom line."

The IAD does not have the flexibility to manage decreases to our budget without directly affecting our level of service. Reductions in budget result directly in reductions to our staff and consequently to the services we provide. This translates into a reduction in the number and scope of our audits. Additionally as a general fund department, almost 100% of our costs are considered net county cost. The IAD has limited opportunities of generating revenue for ourselves or being reimbursed for our work. What we can save on our annual budget is minimal, and the only way we can truly reduce costs is to eliminate staff. We also have limited flexibility because over 92% of our costs are salary and personnel related. The balance of our budget (about 8%) is spent on operating costs.

#### **V. CHALLENGES**

We have faced two constant challenges each year:

- A. Dynamic Financial Environment of the County: This includes managing decreased revenues caused by State deficits or economic conditions beyond our control. Such an environment requires flexibility in the annual Audit Plan. As part of the flexibility in the Audit Plan, the IAD must also be ready



to respond to unscheduled assignments from the Board of Supervisors majority. We estimate hours required for Board of Supervisors' requested reviews based on history and reserve hours in the Audit Plan specifically for this purpose.

- B. Staff Retention and Replacement: Because the IAD is a small department, each of our staff is significant to the accomplishment of the Audit Plan. The addition of IT audits and Performance Measure Validation reviews to our Audit Plan as requested by the Audit Oversight Committee expanded our range of audit services. Therefore, our only alternative for staffing these new reviews is by reassigning hours from other audit areas such as Internal Control Reviews. More pressingly, there is a continued increased demand for experienced auditors resulting from the 2002 Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires all publicly traded companies to certify that they have adequate internal controls in place. Because of the importance of this requirement, companies are implementing on-going internally audited control and assurance processes. Companies that previously did not have an internal audit function are now implementing the function. This has created an on-going demand for experienced internal auditors.

In 2004, the Internal Audit Department implemented the new performance and compensation package (MAP & EMAP) training for managers. Four of our managers have participated in the Leadership Academy initiated by the County. The IAD is committed to supporting EEO, PIP, LEAD, MAP, EMAP and Employee Recognition Programs as County of Orange initiatives. Managers and Supervisors accomplish these Human Resource Department directives by meeting with staff and the Director of Internal Audit to address PIP and MAP goals, and answer questions and concerns. The IAD feels this collaborative process will ensure that both the department's goals and individual goals are consistent. The Labor Management Committee (LMC) is an active part of our management structure and we are represented on the LMC for the Auditor-Controller/Internal Audit. This committee meets periodically to identify and resolve workplace issues.

### **Information Technology (IT) Issues**

The pace of technological advancement and the benefits to be realized by implementing these advances to improve County business operations is increasing at an accelerating speed. The IAD implemented an Information Technology (IT) audit process as a complement to the audits we conduct in Financial Audits and Mandates (FAM) and Internal Control Reviews (ICR). Information Technology issues are now so important to the County and becoming ever more so as technology advances.



## VI. STRATEGIES TO ACCOMPLISH GOALS, OUTCOME INDICATORS AND MEASURES

### Operational Strategies to Accomplish Our Goals:

We support and assist County management and their business goals and objectives. Our contribution is testing and reporting on the effectiveness of their internal control systems and processes as these relate to safeguarding the County's assets and resources, prudent and reasonable financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

Because our activities are focused and integrated into the annual Audit Plan, we did not separate the activities and match them to either of the two goals because all our activities support both objectives.

The table below summarizes the professional activities we accomplish and areas we cover annually, as well as the expected intermediate outcomes and measures. The majority of our activities are summarized in the following areas:

- Develop and conduct an annual Audit Plan based on a comprehensive risk assessment.
- Keep the Board of Supervisors, AOC, and County executive management informed of audit issues. Submit monthly audit activity summary reports to the Board of Supervisors.
- Follow a recognized internal control framework (COSO).
- Follow professional standards issued by the IIA, GAO, AICPA, and ISACA, as applicable.
- Instruct and train County executive managers on their ownership of and their responsibility for maintaining effective internal controls.
- Encourage professional certifications for staff.
- Develop and train audit staff and help them maintain their certifications.
- Apply EMAP, MAP, and PIP as directed by County H/R.

STRATEGIES AND PLANS TO ACCOMPLISH GOALS	OUTCOMES AND MEASURES
1. Conduct and or update the annual Risk Assessment as the basis for the annual Audit Plan.	The annual Audit Plan's emphasis and content is agreed upon and approved by the AOC.
2. Direct audit resources to "higher risk" areas first unless otherwise directed by the Board of Supervisors (BOS) or the Audit Oversight Committee (AOC).	The annual Audit Plan's emphasis and content is agreed upon and approved by the AOC.
3. Apply audit resources in accordance with the annual Audit Plan as approved by the Audit Oversight Committee.	Each quarter, IAD will submit a status report of our progress in completing the annual Audit Plan to the AOC.



STRATEGIES AND PLANS TO ACCOMPLISH GOALS	OUTCOMES AND MEASURES
4. Follow-Up Audits on all audit findings and recommendations are initiated within six to twelve months of the release date of the final original audit report.	Audit recommendations from all audits will be followed-up. We will conduct the first follow-up audit beginning after 6 months, and then proceed to a second follow-up beginning after 12 months. After that, any unresolved issue is brought to the attention of the AOC.
5. Keep the Board of Supervisors informed of emerging issues as these come to the attention of the IAD, including those not specifically identified through the audit process.	Each member of the Board and/or their staff will be briefed by Dr. Hughes and his staff on audit matters monthly or at their convenience. The Director of Internal Audit will also submit monthly reports as part of the Board agenda. Board EA's will be briefed as necessary to increase awareness of audit issues.
6. Provide information to the Board of Supervisors and County management regarding both the adequacy and integrity of key controls over their business systems	<p>a) All audit reports will be distributed to the Board Members, Grand Jury, AOC Members (includes the County Executive Officer), relevant Department Heads, and formally to the Clerk of the Board, pursuant to AOC Administrative Procedure No. 1.</p> <p>b) Each quarter, obtain a status of all third party or external audit activity from the County departments and agencies. Compile and report the information quarterly to the AOC, including highlighting any material or significant issues, pursuant to the AOC Administrative Procedure No. 2.</p> <p>c) All quarterly Audit Oversight Committee meetings will be fully supported by the IAD including: (A) preparation of agendas and minutes, distribution of same and exhibits and documents beforehand, (B) submission of quarterly status reports regarding completion of the audit plan and progress of each audit, and (C) briefings as appropriate on audit issues and findings.</p>



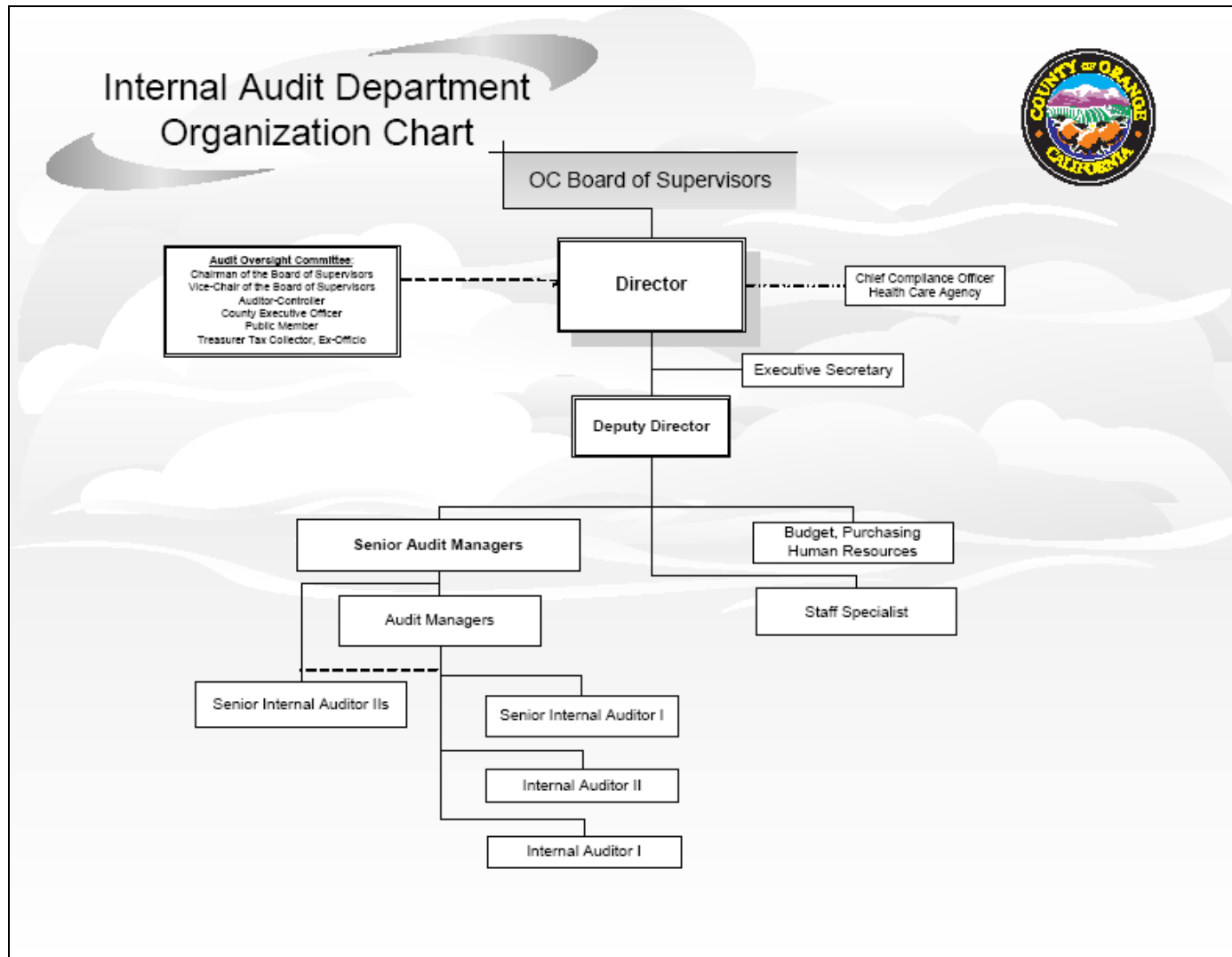
STRATEGIES AND PLANS TO ACCOMPLISH GOALS	OUTCOMES AND MEASURES
8. As required by Government Code 1236, complete all audits in compliance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors or by the relevant professional standards.	<p>a) Each audit assignment will be internally reviewed for compliance with the professional standards and this review will be documented in the audit working papers (using a quality assurance checklist) for every audit completed.</p> <p>b) Every three years, IAD will undergo a quality review to obtain independent assurance of our compliance with the IIA standards. In 2001, we underwent a quality review that concluded we are in compliance with IIA standards. We completed two further quality reviews in 2004. Both concluded the department complied with all professional standards relating to internal audit and in many areas was a model for how an internal audit department should operate. Our next quality review is scheduled for 2007.</p>
9. Provide training opportunities and reimbursement to staff for professional development and to meet certification requirements.	Each auditor will complete and document at least 40 hours of continuing professional education training.
10. Effectively implement, establish, promote and monitor the Performance Incentive Program (PIP) and the Management Appraisal Program (MAP).	Managers and Supervisors will accomplish this by meeting with staff and the Director of Internal Audit to address PIP and MAP goals and answer questions and concerns. Internal Audit feels this collaborative process will ensure that both the department's goals and objectives and individual goals are consistent.





## VI. APPENDICES

### A. Organizational Chart





## **B. Management Team**

The management team of the Internal Audit Department lead a dynamic valuable program with highly trained, credentialed, and seasoned professionals. As a small department, each team member is vital to the success and ongoing progress of the department. Their accumulated professional experiences from within and outside the County balance the programs they oversee.

The Internal Audit Department Management Team consists of the following:

Director, Peter Hughes, Ph.D., MBA, CPA, CIA, CFE, CITP  
Deputy Director, Eli Littner, CPA, CIA, CFE, CFS, CISA  
Senior Audit Manager, Michael Goodwin, CPA, CIA  
Senior Audit Manager, Alan Marcum, MBA, CPA, CIA, CFE  
Senior Audit Manager, Autumn McKinney, CPA, CIA, CGFM, CISA  
Administrative Manager II, Vangie Ortiz  
Executive Secretary, Renee Aragon

## **C. Labor Management Committee (LMC)**

The Internal Audit Department LMC Members are:

Administrative Manager, Vangie Ortiz  
Systems Programmer/Analyst, Jerry Causey (retired)

## **D. Business Plan Team**

The Internal Audit Business Plan Team consists of the following:

Director, Peter Hughes, Ph.D., MBA, CPA, CIA, CFE, CITP  
Deputy Director, Eli Littner, CPA, CIA, CFE, CFS, CISA  
Senior Audit Manager, Michael Goodwin, CPA, CIA  
Senior Audit Manager, Alan Marcum, MBA, CPA, CIA, CFE  
Senior Audit Manager, Autumn McKinney, CPA, CIA, CGFM, CISA  
Administrative Manager II, Vangie Ortiz  
Executive Secretary, Renee Aragon

## **E. Accomplishments**

All financial and mandated audits were completed within the mandated timeframe. The 2006 Audit Plan was completed at a level of 90% or better.



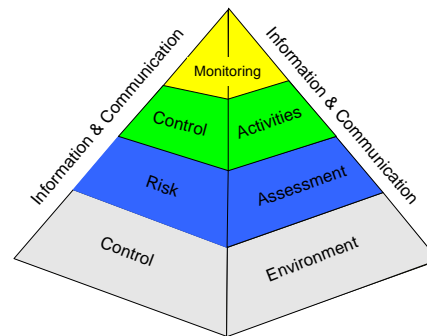
## F. Department Background

### **Brief History of the Internal Audit Department after the Orange County Bankruptcy**

The Internal Audit Department was established as a separate independent department and removed from the County Auditor-Controller by Board Resolution 95-271, dated April 25, 1995. The Internal Audit Department's initial duties were to perform all audits required by Government Code Section 25250 including the biennial audits of County officers. The Auditor-Controller chose to contract with the Internal Audit Department to have them perform certain mandated audits on his behalf. As of Fiscal Year 07, the Auditor-Controller has decided to no longer contract with Internal Audit Department to perform these audits. These audits are the biennial audits of the Probation Department (Welfare and Institutions Code Section 275), and the quarterly verifications of assets in the County Treasury (Government Code Section 26923).

### **Auditing County Internal Controls Using a Standard Framework**

We perform our services incorporating the nationally recognized Committee of Sponsoring Organizations (COSO) control framework whenever required by the specifics of the mandated financial statement audits. This standardized framework provides definitions and clearly makes organization management responsible for implementing and maintaining internal controls.



### **Roles and Responsibilities of Internal Control**

Management is solely responsible for establishing and maintaining internal controls in their departments/agencies. This means that management is responsible for identifying the business and operational risks that could prevent them from achieving their business objectives. Management must make sure that appropriate internal controls (policies and procedures) are in place to prevent, detect, and mitigate those risks. Management is also responsible to consistently monitor their internal controls and make sure that controls are still working as originally designed and to determine whether business risks have changed and new internal controls or processes are required.

The internal control elements of the framework are depicted in the above diagram, and are described below:



***Control Environment:*** The control environment sets the tone of the organization from the top down. That is one of the primary responsibilities of executive management. The control environment includes the vision of the organization, integrity, strong ethical values, hiring competent personnel, appropriate delegation of authority and responsibility, and developing staff. The control environment is the foundation for the control elements higher in the pyramid.

***Risk Assessment:*** Each County department faces a variety of business and operational risks both from external and internal sources. Such risks are assessed in the risk assessment process. This process is the identification and analysis of relevant risks to the achievement of business objectives and forming a basis for determining how the risks should be addressed and managed.

***Control Activities:*** Control Activities are the policies and procedures that help ensure that necessary actions are taken to address the identified risks. They include a range of activities such as requiring supervisory approvals, reconciling bank accounts, safeguarding assets, and establishing audit trails.

***Information and Communication:*** Correct information must be identified, recorded, and communicated in a form and timeframe that staff can absorb to allow them to fulfill their organizational responsibilities.

***Monitoring:*** Internal control systems should be monitored constantly to assess whether controls are still working as designed or whether new controls are needed because the business environment changed. Monitoring involves organization management and supervision, internal and external reviews and evaluations.

## **Ethical Requirements**

The IAD complies with professional ethical requirements. These include the ethical standards of the County, the rules of ethics promulgated by the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Government Accountability Office (GAO).



## **Professional Auditing Standards**

The IAD complies with Section 1236 of the California Government Code, which states that all county employees who conduct internal audits “. . . shall utilize the general and specified standards . . . in the publication entitled Standards for the Professional Practice of Internal Auditing (typically referred to as the “Red Book”), published by the Institute of Internal Auditors, Inc.”

For audits requiring an opinion on the fairness of financial statements, the IAD complies with generally accepted auditing standards and generally accepted accounting principles promulgated by the Financial Accounting Standards Board, and governmental generally accepted accounting principles promulgated by the Governmental Accounting Standards Board.

Sometimes regulations or state authorities specify other comparable standards which are applicable for the audit. The IAD complies with their specific direction because none of the professional standards are incompatible with one another. Some examples of such audits are the District Attorney Spousal Abuser Grant and the District Attorney Workers Compensation Fraud Grant which are conducted in accordance with the Government Accountability Office’s Standards for Audits (typically referred to as the “Yellow Book”).

